



Pima Health System and Services
Enterprise Fund

For the Fiscal Year Ended June 30, 2008
Pima County, Arizona



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INDEPENDENT AUDITORS' REPORT

To the Members of the Arizona State Legislature and the Board of Supervisors of Pima County, Arizona

We have audited the accompanying financial statements of **Pima Health System and Services** at and for the year ended June 30, 2008. These financial statements are the responsibility of **Pima Health System and Services'** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of **Pima Health System and Services** are intended to present the financial position, the changes in financial position and cash flows, where applicable, of only that portion of the business-type activities and the aggregate remaining fund information of Pima County that are attributable to the transactions of **Pima Health System and Services**. They do not purport to, and do not, present fairly the financial position of Pima County at June 30, 2008, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Pima Health System and Services** at June 30, 2008, and the changes in financial position and cash flows, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2008 on our consideration of **Pima Health System and Services'** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of **Pima Health System and Services**. The accompanying financial information listed as additional information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of **Pima Health System and Services** and Pima County and is not intended to be and should not be used by anyone other than these specified parties.

Phoenix, Arizona
October 24, 2008

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Members of the Arizona State Legislature and the Board of Supervisors of Pima County,
Arizona

PIMA HEALTH SYSTEM AND SERVICES

We have audited the financial statements of *Pima Health System and Services* at and for the year ended June 30, 2008, and have issued our report thereon dated October 24, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered *Pima Health System and Services'* internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the *Pima Health System and Services'* internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the *Pima Health System and Services'* internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent and detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether *Pima Health System and Services'* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of *Pima Health System and Services* and Pima County and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Phoenix, Arizona
October 24, 2008

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Statement of Net Assets
June 30, 2008

Assets

Current assets:

Cash and cash equivalents	\$ 42,624,380
Receivables:	
Accounts, net	781,015
Reinsurance claims	10,608,885
Grants	644,619
Interest	144,105
Due from:	
Medicare	285,932
Other Pima County funds	1,284
Inventory of supplies	81,406
Prepaid expenses	<u>13,852</u>
Total current assets	<u>55,185,478</u>

Noncurrent assets:

Capital assets:	
Building improvements	693,876
Machinery and equipment	1,138,451
Accumulated depreciation:	
Leasehold improvements	(518,984)
Machinery and equipment	<u>(712,106)</u>
Capital assets, net	<u>601,237</u>
Total assets	<u>\$ 55,786,715</u>

Liabilities

Current liabilities:

Accounts payable and accrued liabilities	\$ 863,954
Accrued medical and health care claims	34,375,130
Accrued employee compensation	3,015,745
Interest payable	4,985
Deferred revenue	1,629
Due to:	
Other Pima County funds	1,087,221
Other governments	<u>1,880,097</u>
Total current liabilities	<u>41,228,761</u>

Non-current liabilities:

Accrued employee compensation	<u>688,824</u>
Total non-current liabilities	688,824
Total liabilities	<u>41,917,585</u>

Net Assets

Invested in capital assets	601,237
Restricted for health care	13,732,073
Unrestricted (deficit)	<u>(464,180)</u>
Total net assets	<u>\$ 13,869,130</u>

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2008

Operating revenues:

Capitation	\$ 272,140,613
Reinsurance claims	17,510,419
Charges for services	2,328,419
Other	987,009
Total operating revenues	<u>292,966,460</u>

Operating expenses:

Medical and health care claims	264,651,859
Case management (contracted and salaried)	6,918,900
General, fiscal, and administrative services	9,266,061
Depreciation	215,162
Other	8,660,893
Total operating expenses	<u>289,712,875</u>
Operating income	<u>3,253,585</u>

Nonoperating revenues (expenses):

Grant revenue	4,722,756
Interest income	2,402,052
Interest expense	(92,860)
Premium tax	(5,892,658)
Loss on disposal of equipment	<u>(539)</u>
Total nonoperating revenues	<u>1,138,751</u>

Income before capital contributions and transfers	4,392,336
Capital contributions	<u>72,118</u>
Increase in net assets	4,464,454
Net assets, July 1, 2007	<u>9,404,676</u>
Net assets, June 30, 2008	<u>\$ 13,869,130</u>

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Statement of Cash Flows
Year Ended June 30, 2008

Cash flows from operating activities:

Cash receipts from:

Contractors, patients and other payors	\$ 299,344,529
Other Pima County funds for goods and services	257,181
Miscellaneous operations	987,009

Cash payments to:

Providers for health care services	(235,385,743)
Employees for services	(39,821,981)
Other Pima County funds for goods and services	(4,270,205)

Net cash provided by operating activities	21,110,790
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Cash flows from noncapital financing activities:

Loans with other Pima County funds	(61,669)
Interest paid on short-term credit	(87,875)
Grant receipts	4,803,496
Premium tax payments	(5,892,658)
Net cash used for noncapital financing activities	(1,238,706)

Cash flow from capital and related financing activities:

Purchase of capital assets	(117,688)
Net cash used for capital and related financing activities	(117,688)

Cash flow from investing activities:

Interest received on cash and investments	2,323,775
Net cash provided by investing activities	2,323,775

Net increase in cash and cash equivalents	22,078,171
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Cash and cash equivalents, July 1, 2007	20,546,209
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Cash and cash equivalents, June 30, 2008	\$ 42,624,380
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(continued)

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Statement of Cash Flows
Year Ended June 30, 2008
(continued)

**Reconciliation of operating income to net cash
provided by operating activities:**

Operating income	\$ 3,253,585
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	215,162
Decrease (increase) in assets:	
Accounts receivable	(28,990)
Reinsurance claims receivable	3,691,158
Due from Medicare	(158,529)
Due from other governments	2,122,664
Inventory of supplies	6,942
Prepaid expenses	(2,616)
Increase (decrease) in liabilities:	
Accounts payable and accrued liabilities	110,693
Accrued medical and health care claims	8,595,496
Accrued employee compensation	1,424,288
Due to other governments	1,880,097
Deferred revenue	840
Net cash provided by operating activities	\$ <u>21,110,790</u>

Noncash investing, capital and financing activities:

During the year ended June 30, 2008, the Fund received equipment worth \$91,289. Of this amount, the Fund transferred \$19,171 from capital in process and \$72,118 was a capital contribution.

During the year ended June 30, 2008, the Fund retired equipment with a net book value of \$539.

PIMA COUNTY, ARIZONA
Pima Health System and Services – Enterprise Fund
Notes to Financial Statements
June 30, 2008

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Pima County (County) and its Pima Health System and Services Enterprise Fund (Fund) conform to U.S. generally accepted accounting principles (GAAP) applicable to governmental units as promulgated by the Governmental Accounting Standards Board (GASB) and the regulatory requirements of the State of Arizona. A summary of the County's significant accounting policies affecting the Fund follows.

During the year ended June 30, 2008, the Fund implemented the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. GASB Statement No. 45 requires systematic measurement and recognition of other postemployment benefits' (OPEB) cost over employees' years of service and provides information about actuarial accrued liabilities associated with OPEB. Although OPEB is not required to be funded, whether and to what extent progress is being made in funding the liabilities must be disclosed. GASB 45 requires prospective application upon adoption and as a result of the implementation of GASB 45, the Fund has recorded a net OPEB obligation offset by OPEB expense in the accompanying financial statements, related to the post-employment healthcare benefit participation by Fund retirees and their beneficiaries in Pima County's healthcare benefit plan. Further information regarding this measurement and disclosure is available in Note 8. The County has implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* for the fiscal year ended June 30, 2008.

A. Reporting Entity

The Fund is accounted for as an enterprise fund of Pima County, Arizona and the ultimate financial accountability for the Fund remains with Pima County. The Fund's management is responsible for overseeing the operations of Pima Health System (the AHCCCS contracts), Posada Del Sol Nursing Home, the Grants and Community Services System, and other Pima County programs, whose activities are included in the accompanying financial statements.

The financial statements present only the Pima Health System and Services Enterprise Fund and are not intended to present the balances and activity of Pima County or its business-type activities and enterprise funds. The County and Pima Health System and Services is a contractor with the Arizona Health Care Cost Containment System (AHCCCS) to provide health care services to eligible enrollees of the AHCCCS Ambulatory and Arizona Long-Term Care System (ALTCS) programs. The Ambulatory program provides both inpatient and outpatient medical and nursing services to eligible enrollees of the Ambulatory program. The ALTCS program provides inpatient and outpatient medical and nursing services in addition to managed institutional and home- and community-based long-term care services to eligible enrollees of the ALTCS program. The Fund also provides long-term care services to Posada del Sol Nursing Home residents who are primarily ALTCS enrollees. The Fund receives monthly premiums from AHCCCS for all eligible enrollees under the respective Ambulatory and ALTCS programs.

B. Fund Accounting

The Fund's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Fund's available resources are observed. The principles of fund accounting require that the resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses.

The Fund's financial transactions are recorded and reported as an enterprise fund because its operations are financed and operated in a manner similar to private business enterprises. It is the intent of the Pima County Board of Supervisors that the costs (expenses including depreciation) of goods or services provided by the Fund on a continuing basis be financed or recovered primarily through contractual agreements and user charges.

C. Basis of Accounting

Basis of accounting relates to the timing of the measurements made, and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. The financial statements of the Fund are reported using the economic resources measurement focus and are presented on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when a liability is incurred, regardless of the timing of the related

PIMA COUNTY, ARIZONA
Pima Health System and Services – Enterprise Fund
Notes to Financial Statements
June 30, 2008

Note 1 - Summary of Significant Accounting Policies (continued)

cash flows. When both restricted and unrestricted net assets are available to finance Fund expenses, restricted resources are used before unrestricted resources. Interfund transactions that would be treated as revenues or expenses if they involved parties external to the County are recorded in the appropriate revenue or expense accounts. Intrafund transactions within the Fund are eliminated for the financial statement presentation.

Unless in conflict with GASB pronouncements, the Fund follows Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions, and Accounting Research Bulletins. The County has chosen the option not to follow FASB statements and interpretations issued after November 30, 1989.

D. Basis of Presentation

The financial statements include a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows. A statement of net assets provides information about the assets, liabilities, and net assets of the Fund at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external restrictions or availability of assets to satisfy the Fund's obligations. Invested in capital assets represents the cost of capital assets, net of accumulated depreciation. Restricted net assets represent grants, contracts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

A statement of revenues, expenses, and changes in fund net assets provides information about the Fund's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions and transfers. Generally, capitation and other charges generated by the Fund for providing health care services are considered to be operating revenues. Other revenues used for health care, such as grants and interest earnings, are not generated from operations and are considered to be nonoperating revenues. Operating expenses include the costs of providing health care services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense and AHCCCS premium taxes are considered to be nonoperating expenses.

A statement of cash flows provides information about the Fund's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as operating, noncapital financing, capital and related financing, or investing.

E. Capitation Receipts

The Fund receives from AHCCCS fixed capitation payments, generally in advance, based on certain rates for each AHCCCS member enrolled with the Fund. The Fund is required to provide all covered health care services to their members, regardless of the cost of care. If there are funds remaining, the Fund retains the funds as profit; if the costs are higher than the amount of capitation payments from AHCCCS, the Fund absorbs the loss. The Fund may recover certain losses for those cases eligible for reinsurance payments. Capitation premiums are recognized in accordance with the Fund's contract with AHCCCS.

Capitation is paid prospectively as well as for prior period coverage (PPC). The PPC period is from the first day of the month of application to the time of enrollment with a contracted health plan. The risk under PPC is shared by both the Fund and AHCCCS for the contract year ended September 30, 2008. AHCCCS reconciles the actual PPC medical costs to the PPC capitation paid during the year. The reconciliation limits the contractor's profits and losses to 2%. Except for Title XIX waiver members, effective October 1, 2002, the PPC rates were adjusted and the reconciliation of PPC costs was not performed for the contract year ended September 30, 2003. The PPC reconciliation was reinstated for the contract year ended September 30, 2004 and thereafter. At June 30, 2008, the Fund has approximately \$1,810,000 of estimated settlement payments due to AHCCCS for the PPC reconciliation for contract years 2005, 2006, 2007 and 2008.

PIMA COUNTY, ARIZONA
Pima Health System and Services – Enterprise Fund
Notes to Financial Statements
June 30, 2008

Note 1 - Summary of Significant Accounting Policies (continued)

Similar risk sharing was in place for the contract year ended September 30, 2008 for medical costs incurred by contracted health plans for the Social Security Disability Insurance-Temporary Medical Coverage (SSDI-TMC) members. AHCCCS reconciles the contractor's prospective medical costs to prospective capitation. This group is not eligible for prior period coverage, supplemental payments or reinsurance. The reconciliation limits the contractor's profits or losses to 2%.

At June 30, 2008, the Fund has recorded a receivable from AHCCCS representing estimated settlement payments due for the SSDI-TMC reconciliation of approximately \$22,000 for contract year ended September 30, 2008. These receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to these receivables. These receivables at June 30, 2008 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Additional capitation payments from AHCCCS include the Human Immunodeficiency Virus (HIV) supplemental payment and the Home and Community-Based Services (HCBS) Mix reconciliation. The HIV supplemental payment is paid to the Fund by AHCCCS to help offset the significant pharmaceutical expense the Fund incurs for members with the virus. At June 30, 2008, the Fund has recorded a \$173,000 receivable from AHCCCS representing supplemental payments due for AHCCCS members afflicted with HIV/AIDS. The HCBS Mix reconciliation is designed to limit the risk for both the Fund and AHCCCS of placement assumptions utilized in creating capitation rates. When computing capitation rates, AHCCCS assumes a certain percentage of members will be living in an HCBS setting as compared to a nursing facility. The accuracy of this assumption can materially affect the Fund's profitability. At June 30, 2008, the Fund has approximately \$729,000 of estimated settlement payments due to AHCCCS for the HCBS Mix reconciliation for contract years 2006, 2007 and 2008.

F. Reinsurance Receipts

AHCCCS provides a stop-loss reinsurance program for the Fund for partial reimbursement of reinsurable covered medical services incurred for members with an acute medical condition. The program includes a deductible, which varies based on the Fund's enrollment and the eligibility category of the members. AHCCCS reimburses the Fund based on a coinsurance amount for reinsurable covered services incurred above the deductible.

The reinsurance program includes reinsurance reimbursement for covered organ transplantation. The reinsurance program also includes a special catastrophic reinsurance program which covers conditions such as certain traumatic brain injuries and certain blood related disorders. There is no deductible for catastrophic reinsurance cases and AHCCCS reimburses the Fund at a percentage of the Fund's paid amount, less the coinsurance amount, unless the costs are paid under a subcapitated arrangement. AHCCCS pays 85% (75% for traumatic brain injuries) of the Fund's paid amount up to \$650,000 and 100% thereafter for catastrophic reinsurance. Regular reinsurance provides partial reimbursement of reinsurance eligible covered services and AHCCCS will reimburse 75% of eligible costs above a certain deductible level. The deductible is the responsibility of the program contractor. For transplants, payment is limited to 85% of the AHCCCS contract amount for the transplant services rendered or 85% of the Fund's paid amount, whichever is lower.

Reinsurance claims receivable result from additional payments from the AHCCCS Administration to the Fund for certain enrollees whose qualifying medical expenses paid by the Fund during the year ended June 30, 2008, were in excess of specified deductible limits. Reinsurance claims receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to reinsurance claims receivable. Reinsurance claims receivable at June 30, 2008 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

PIMA COUNTY, ARIZONA
Pima Health System and Services – Enterprise Fund
Notes to Financial Statements
June 30, 2008

Note 1 - Summary of Significant Accounting Policies (continued)

G. Share of Costs

The Fund's members covered under the ALTCS program who do not meet certain eligibility criteria are required to pay for a portion of the care they receive. AHCCCS reduces the contracted capitation rate with the Fund by the estimated amount of participant shared costs. After contract year end, AHCCCS analyzes the amount that the Fund should have received from members for share of costs. If the Fund receives less money from the participants in payment of their share of the costs than AHCCCS anticipated, AHCCCS reimburses the Fund for the difference. The share of costs receivables are based off of the contract year which runs from October 1 to September 30. At June 30, 2008, the Fund had approximately \$521,000 due to AHCCCS related to share of costs. This amount is comprised of approximately \$271,000 and \$250,000 due from AHCCCS for contract years 2007 and 2008 respectively. The amount is included in due to other governments in the accompanying statement of net assets.

Share of cost receivables are based on assumptions and estimates, and while management believes the receivable is reasonable, the ultimate share of cost payment for the 2007 through 2008 contract years may be less than or in excess of the amount estimated once AHCCCS completes the contract year reconciliations. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to share of costs receivable. Share of costs receivable at June 30, 2008 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

H. Grant Revenues

Grants and assistance awards made on the basis of entitlement periods are recorded as grants receivable and revenues when entitlement occurs. Reimbursement grants are recorded as grants receivable and revenues as soon as all eligibility requirements have been met. Funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, if the Fund does not comply with the terms of the contract.

I. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash and investments held by the Pima County Treasurer, investments with the State Treasurer, and deposits held in escrow accounts from both restricted and unrestricted sources. Unrestricted cash and cash equivalents consist of cash on hand, cash and investments held by the Pima County Treasurer in an investment pool, and investments with the State Treasurer. All investments are stated at fair value.

J. Accounts and Grants Receivable

Accounts receivable consist primarily of amounts due from third-party payors for health care services provided to patients. Grants receivable consist primarily of amounts due directly from government agencies or passed through the Pima Council on Aging. These balances are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

At June 30, 2008, accounts receivable was net of an allowance for doubtful accounts of approximately \$190,000. Grants receivable at June 30, 2008 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

PIMA COUNTY, ARIZONA
Pima Health System and Services – Enterprise Fund
Notes to Financial Statements
June 30, 2008

Note 1 - Summary of Significant Accounting Policies (continued)

K. Due to Other Governments

Due to other governments consists of amounts due to AHCCCS based on contractual agreement provisions of the Ambulatory and ALTCS programs. The largest component relates to the Prior Period Coverage (PPC) reconciliation (see E).

L. Inventory of Supplies

Inventories consist of medical supplies and are recorded as assets when purchased and expensed when consumed. These inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

M. Capital Assets

Purchased capital assets are capitalized at cost. Donated assets are capitalized at their estimated fair market value on the date received. The Fund capitalizes all land regardless of cost, buildings valued at \$100,000 and all machinery and equipment valued at \$5,000 and above. Depreciation of assets is charged as an expense against operations. Assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Building improvements	7-10 years
Machinery and equipment	5-15 years

N. Medical and Health Care Claims Payable

The Fund is responsible for the cost of providing medical services on a fee-for-service basis to a majority of the health care service providers through which it contracts with the exception of five providers that have negotiated sub-capitation agreements. The Fund paid approximately \$1.2 million to these sub-capitated providers during fiscal year 2008.

In the accompanying financial statements, medical and health care claims expense includes claims paid, claims in process and pending, and the estimate made by management for incurred but not reported (IBNR) programmatic claims. These IBNR programmatic claims include charges by physicians, hospitals and other health care providers for services rendered to eligible members during the period for which claims have not yet been submitted.

The estimates for IBNR programmatic claims are developed using methods based upon historical data for payment patterns and other relevant factors. Such liabilities are necessarily based on assumptions and estimates, and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and adjustments are reflected in the period determined.

At June 30, 2008, medical and health care claims payable consists of estimates of approximately \$22,666,000 for incurred but not reported claims and \$11,709,000 for reported but unpaid claims in the AHCCCS Ambulatory and ALTCS programs and the Grants and Community Service System.

O. Compensated Absences

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered.

PIMA COUNTY, ARIZONA
Pima Health System and Services – Enterprise Fund
Notes to Financial Statements
June 30, 2008

Note 1 - Summary of Significant Accounting Policies (continued)

Employees may accumulate up to 240 hours of vacation depending upon years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate up to 1,920 of sick hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Sick leave benefits do not vest with employees; however, employees who are eligible to retire from County service into the Arizona State Retirement System, Public Safety Personnel Retirement Plan, or Corrections Officer Retirement Plan may request sick leave be converted to annual leave, on a predetermined conversion basis. An estimate of those retirement payouts is accrued as a liability.

P. Taxes

The Fund is an enterprise fund of Pima County and is not subject to income taxes. However, payments from AHCCCS for acute care, ventilator dependent care, and ALTCS care are subject to a premium tax of 2%. Total premium tax expense for the year ended June 30, 2008 was \$5,892,658 which is included in the nonoperating expenses portion of the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The Fund has \$56,025 due to the Arizona Department of Insurance at June 30, 2008. This amount is netted against due to other governments in the accompanying Statement of Net Assets.

Q. Management's Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at June 30, 2008, and the reported amounts of revenues and expenses during the fiscal year then ended. Actual results may differ from these estimates.

Note 2 - Cash and Investments

Cash and cash equivalents at June 30, 2008 were as follows:

Cash on hand	\$ 2,500
Cash and investments in the Pima County Treasurer's Investment pool	<u>42,621,880</u>
Total	<u>\$ 42,624,380</u>

Cash and investments in the Pima County Treasurer's investment pool represent a portion of the County Treasurer's pool portfolio. The pool's structure does not provide for shares. The Fund's portion in the pool is not identified with specific investments. Investment income is allocated to the Fund on a pro-rata basis.

Credit risk – Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The County does not have a formal investment policy with respect to credit risk. The Pima County Treasurer's investment pool is unrated.

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect an investment's fair value. The County does not have a formal investment policy with respect to interest rate risk. The Pima County Treasurer's investment pool had a weighted average maturity of 108 days at June 30, 2008.

Legal provisions – Arizona Revised Statutes authorize counties to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds' interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States. In addition, the County Treasurer may invest trust funds in fixed income securities of corporations doing business in the United States or District of Columbia.

PIMA COUNTY, ARIZONA
Pima Health System and Services – Enterprise Fund
Notes to Financial Statements
June 30, 2008

Note 2 - Cash and Investments (continued)

Credit risk – Arizona Revised Statutes have the following requirements for credit risk:

1. Commercial paper must be rated P1 by Moody's investors service or A1 or better by Standard and Poor's rating service.
2. Corporate bonds, debentures, and notes must be rated A or better by Moody's investors service or Standard and Poor's rating service.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk – Arizona Revised Statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

Concentration of credit risk – Arizona Revised Statutes do not include any requirements for concentration of credit risk.

Interest rate risk – Arizona Revised Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years and that public operating fund monies invested in securities and deposits have a maximum maturity of 3 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

Foreign currency risk – Arizona Revised Statutes do not allow foreign investments.

Note 3 - Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	<u>July 1, 2007</u>			<u>June 30, 2008</u>
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Building improvements	\$ 693,876			\$ 693,876
Accumulated depreciation	(427,506)	\$ (91,478)		(518,984)
Net leasehold improvements	266,370	(91,478)		174,892
Machinery and equipment	942,687	208,977	\$ (13,213)	1,138,451
Accumulated depreciation	(601,096)	(123,684)	12,674	(712,106)
Net machinery and equipment	341,591	85,293	(539)	426,345
Capital in process	19,171		(19,171)	
Capital assets, net	<u>\$ 627,132</u>	<u>\$ (6,185)</u>	<u>\$ (19,710)</u>	<u>\$ 601,237</u>

Note 4 - Claims, Judgments and Risk Management

Compliance with Laws and Regulations – The Fund is subject to numerous laws, regulations and oversight by the state and federal governments. These laws and regulations include, but are not necessarily limited to, matters such as government health care program participation requirements, reimbursement for member services and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant financial sanctions. Compliance with such laws and regulations can be subject to future review and interpretation as well as regulatory actions unknown at this time.

PIMA COUNTY, ARIZONA
Pima Health System and Services – Enterprise Fund
Notes to Financial Statements
June 30, 2008

Note 4 - Claims, Judgments and Risk Management (continued)

The Fund has received notices from AHCCCS of possible sanctions for each quarter in fiscal year 2008. The sanctions are a result of pended encounters. As of June 30, 2008, there were approximately 82,660 pended encounters with associated sanction amounts of \$1,177,120. It is unknown whether pended encounters were due to the Fund's or AHCCCS' system issues and AHCCCS has preliminarily waived the monetary sanctions as of June 30, 2008. The sanctions could be re-imposed if the Fund is unable to adjudicate all pended encounters once AHCCCS system issues are corrected. Fund management does not believe these sanctions will be re-imposed. Subsequent to year end, the Fund purchased additional software to correct known encounter billing problems.

Self-insurance - The Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; medical malpractice; and natural disasters. The Fund is a participant in Pima County's self-insurance program, and in the opinion of the Fund's management, that self-insurance program would cover any unfavorable outcomes from these risks. Accordingly, the Fund has no risk of loss beyond adjustments to future years' premium payments to Pima County's self-insurance program. All estimated losses for unsettled claims and actions of the Fund are determined on an actuarial basis and are included in the *Pima County Comprehensive Annual Financial Report*. As of June 30, 2008, the Fund incurred \$860,412 in self-insurance expense which is included in other operating expenses in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

Medical Malpractice - The Fund has obtained modified claims-made insurance policies to cover medical malpractice claims. Deductibles are the responsibility of Pima County through Risk Management and are \$1,000,000 per occurrence with an annual aggregate self insurance retention of \$5,000,000. The Fund's primary medical malpractice policy has a retroactive date of June 26, 1993. Settled claims have not exceeded insurance coverage in any of the prior three fiscal years.

Note 5 - Related Party Transactions

During the course of its operations, the Fund had numerous transactions with other Pima County funds to finance operations and provide services. During the year ended June 30, 2008, the Fund received capitation revenues totaling \$114,000 from Pima County departments for services provided to Pima County patients and other income totaling \$257,181 for claims processing services. The Fund incurred expenses totaling \$5,925,321 for the allocation of overhead, insurance premiums, interest, and other charges for miscellaneous supplies and services from Pima County.

Of the \$1,087,221 balance in due to other Pima County funds, \$1,079,153 represents advances received from other County funds to eliminate cash overdrafts in the Fund's following programs:

Grants/Community Services System	\$ 744,548
Other Pima County Programs	334,605
Total	<u>\$ 1,079,153</u>

The remaining \$8,068 was for miscellaneous services.

Note 6 - Retirement Plan

Plan Description

The Fund contributes to the Arizona State Retirement System (ASRS). Benefits are established by State statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The ASRS administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the County. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by contacting the ASRS at 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000.

PIMA COUNTY, ARIZONA
Pima Health System and Services – Enterprise Fund
Notes to Financial Statements
June 30, 2008

Note 6 - Retirement Plan (continued)

Funding Policy

The retirement plan is funded by payroll deductions from eligible employees' gross wages and matching amounts contributed by the Fund. These amounts satisfy the statutory requirement that employees and the Fund contributions must cover the actuarially determined current service costs of the retirement plan, plus amortization over a 30-year period of the unfunded past service liability. The Arizona State Legislature establishes and may amend active plan members' and the Fund's contribution rate. Payroll deductions as a percentage of employee wages were 9.1% (8.6% for retirement and 0.5% for long-term disability) for 2008. The Fund's contributions to the ASRS were \$2,856,949 in 2008, \$2,557,913 in 2007 and \$1,983,861 in 2006, which were equal to the required contributions for the stated year. The 2008 amount is included in administrative services expense in the accompanying financial statements.

Note 7 – Capitation

For the year ended June 30, 2008, capitation revenues consist of the following amounts:

ALTCS long-term care	\$ 162,240,953
AHCCCS ambulatory/acute care	109,355,770
Pima County residual and other programs	543,890
Total	<u>\$ 272,140,613</u>

Note 8 – Postemployment Healthcare Benefits

In compliance with GASB Statement No. 45, the Fund reported an accrued actuarial liability or *Net OPEB obligation* and related OPEB expense at June 30, 2008. The short-term portion is reported with accrued employee compensation. The long-term portion is reported separately.

Retiree Insurance Program

Employees retiring from Pima County service, who receive monthly income from one of the Arizona State Retirement Plans, are eligible to continue medical and dental insurance coverage at group rates through the County (the Program). It is a single-employer plan and the benefits and premium rates are approved by the Board of Supervisors on an annual basis for active and retired members. Although Pima County does not explicitly pay a portion of the retiree's premiums, because of the inclusion of this risk class in the insured pool, there is an implicit rate subsidy or "premium rate differential" that is incurred by the County. No separate financial report is provided for the Program.

Funding Policy

The Program is currently funded on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

The County's annual healthcare pension cost and net pension obligation as of and for the fiscal year ended June 30, 2008, were as follows:

Annual Pension Cost and Net Pension Obligation

Annual healthcare pension contribution	\$ 1,111,000
Interest on net pension obligation	43,000
Adjustment to annual required obligation	
Annual implicit pension cost	1,154,000
Implicit contributions made	(192,000)
Increase in net pension obligation	962,000
Net pension obligation at beginning of year	
Net pension obligation at end of year	<u>\$ 962,000</u>
Current portion	(273,000)
Non-current portion	<u>\$ 689,000</u>

PIMA COUNTY, ARIZONA
Pima Health System and Services – Enterprise Fund
Notes to Financial Statements
June 30, 2008

Note 8 – Postemployment Healthcare Benefits (continued)

Actuarial Methods and Assumptions

The more significant actuarial assumptions and methods used in the calculations of employer contributions to the Retiree Insurance Program for the fiscal year ended June 30, 2008 are as follows:

<u>Method/Assumption</u>	
Valuation date	July 1, 2007
Actuarial cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll
Remaining amortization period	30 Years open
Actuarial cost method	Projected unit credit
Investment rate of return	4.50%
Medicare coverage age	65
Retirement and disability age	Based on EORP, CORP, ASRS, and PSRS pension valuations
Salary increases	2.50%
Payroll growth	2.50%
Active members	522
LTD/Retiree and spouses currently receiving benefits	20

Note 9 – Subsequent Event

On May 13, 2008, the Fund's ambulatory services contract with AHCCCS serving Pima and Santa Cruz counties was not renewed. Effective October 1, 2008, of the 30,000 members currently accessing providers through the Fund, an estimated 3,000 dually-eligible members would remain resulting in a reduction of revenues and expenses of approximately \$82 million. As a result of this contract termination, the Fund has implemented a plan to significantly reduce expenses, primarily through a reduction in workforce of approximately 120 employees, effective September 30, 2008.

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Combining Statement of Net Assets by Program
June 30, 2008

	AHCCCS					
	Ambulatory Contracts	Long-Term Care Contracts (1)	Grants/ Community Services System	Other Pima County Programs	Intrafund Eliminations	Total
Assets						
Current assets:						
Cash and cash equivalents	\$ 19,540,950	\$ 23,082,430		\$ 1,000		\$ 42,624,380
Receivables:						
Accounts, net	69,657	386,057		325,301		781,015
Reinsurance claims	4,757,937	5,850,948				10,608,885
Grants			\$ 644,619			644,619
Interest	70,401	73,704				144,105
Due from:						
Medicare		285,932				285,932
Other Pima County funds				1,284		1,284
Inventory of supplies		81,406				81,406
Prepaid expenses				13,852		13,852
Total current assets	\$ 24,438,945	\$ 29,760,477	\$ 644,619	\$ 341,437	\$	\$ 55,185,478
Non-current Assets:						
Capital assets:						
Building improvements				693,876		693,876
Machinery and equipment				1,138,451		1,138,451
Accumulated depreciation:						
Leasehold improvements				(518,984)		(518,984)
Machinery and equipment				(712,106)		(712,106)
Capital assets, net				601,237		601,237
Total assets	\$ 24,438,945	\$ 29,760,477	\$ 644,619	\$ 942,674	\$	\$ 55,786,715
Liabilities						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 211,849	\$ 652,105	\$	\$	\$	\$ 863,954
Accrued medical and health care claims	16,934,652	17,137,349	303,129			34,375,130
Accrued employee compensation	300,147	2,672,240	43,358			3,015,745
Interest payable			4,985			4,985
Deferred revenue			1,629			1,629
Due to:						
Other Pima County funds		2,489	744,548	340,184		1,087,221
Other governments	1,304,169	575,928				1,880,097
Total current liabilities:	18,750,817	21,040,111	1,097,649	340,184		41,228,761
Non-current liabilities:						
Accrued employee compensation	86,575	589,846	12,403			688,824
Total non-current liabilities:	86,575	589,846	12,403			688,824
Total liabilities	18,837,392	21,629,957	1,110,052	340,184		41,917,585
Net Assets (Deficit)						
Invested in capital assets				601,237		601,237
Restricted for health care	5,601,553	8,130,520				13,732,073
Unrestricted (deficit)			(465,433)	1,253		(464,180)
Total net assets (deficit)	\$ 5,601,553	\$ 8,130,520	\$ (465,433)	\$ 602,490	\$	\$ 13,869,130

(1) The financial positions of the Posada Del Sol Nursing Home and the ALTCS Contracts have been combined and are reported as the Long-Term Care Contract program. The combination is presented on page 22.

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Combining Statement of Revenues, Expenses, and
Changes in Net Assets by Program
Year Ended June 30, 2008

	Ambulatory Contracts	Long-Term Care Contracts (1)	Grants/ Community Services System	Other Pima County Programs	Intrafund Eliminations	Total
Operating revenues:						
Capitation	\$ 109,355,770	\$ 162,240,953		\$ 543,890		\$ 272,140,613
Reinsurance claims	6,271,108	11,239,311				17,510,419
Charges for services		2,364,527			\$ (36,108)	2,328,419
Other	417,565	219,163		565,443	(215,162)	987,009
Total operating revenues	116,044,443	176,063,954		1,109,333	(251,270)	292,966,460
Operating expenses:						
Medical and health care claims	107,339,364	153,253,528	\$ 3,588,490	506,585	(36,108)	264,651,859
Case management (contracted and salaried)		5,910,253	1,008,647			6,918,900
General, fiscal, and administrative services	3,355,560	5,273,188	490,361	146,952		9,266,061
Depreciation				215,162		215,162
Other	3,231,218	5,455,124	7,831	181,882	(215,162)	8,660,893
Total operating expenses	113,926,142	169,892,093	5,095,329	1,050,581	(251,270)	289,712,875
Operating income (loss)	2,118,301	6,171,861	(5,095,329)	58,752		3,253,585
Nonoperating revenues (expenses):						
Grant revenue			4,722,756			4,722,756
Interest income	1,203,180	1,198,872				2,402,052
Interest expense			(92,860)			(92,860)
Premium tax	(2,408,227)	(3,484,431)				(5,892,658)
Loss on disposal of equipment				(539)		(539)
Total nonoperating revenues (expenses), net	(1,205,047)	(2,285,559)	4,629,896	(539)		1,138,751
Income (loss) before capital contributions and transfers	913,254	3,886,302	(465,433)	58,213		4,392,336
Capital contributions				72,118		72,118
Transfers in			1,053,088		(1,053,088)	
Transfers out	(1,053,088)				1,053,088	
Increase (decrease) in net assets	(139,834)	3,886,302	587,655	130,331		4,464,454
Net assets (deficit), July 1, 2007	5,741,387	4,244,218	(1,053,088)	472,159		9,404,676
Net assets (deficit), June 30, 2008	\$ 5,601,553	\$ 8,130,520	\$ (465,433)	\$ 602,490	\$	\$ 13,869,130

(1) The financial positions of the Posada Del Sol Nursing Home and the ALTCS Contracts have been combined and are reported as the Long-Term Care Contracts program. The combination is presented on page 23.

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Combining Statement of Cash Flows by Program
Year Ended June 30, 2008

	<u>Ambulatory Contracts</u>	<u>Long-Term Care Contracts (1)</u>	<u>Grants/ Community Services System</u>	<u>Other Pima County Programs</u>	<u>Total</u>
Cash flows from operating activities:					
Cash receipts from:					
Contractors, patients and other payors	\$ 121,246,213	\$ 177,319,545	\$ 840	\$ 777,931	\$299,344,529
Other Pima County funds for goods and services				257,181	257,181
Miscellaneous operations	417,565	569,444			987,009
Cash payments to:					
Providers for health care services	(104,916,156)	(124,586,018)	(5,305,331)	(578,238)	(235,385,743)
Employees for services	(3,245,413)	(35,951,537)	(478,079)	(146,952)	(39,821,981)
Other Pima County funds for goods and services	(1,290,814)	(2,869,162)		(110,229)	(4,270,205)
Net cash provided (used) by operating activities	<u>12,211,395</u>	<u>14,482,272</u>	<u>(5,782,570)</u>	<u>199,693</u>	<u>21,110,790</u>
Cash flows from noncapital financing activities:					
Cash transfer with other Pima County funds	(1,053,088)		1,053,088		
Loans with other Pima County funds		2,489	17,847	(82,005)	(61,669)
Interest paid on short-term credit			(87,875)		(87,875)
Grant receipts			4,803,496		4,803,496
Premium tax payments	(2,408,227)	(3,484,431)			(5,892,658)
Net cash provided (used) by noncapital financing activities	<u>(3,461,315)</u>	<u>(3,481,942)</u>	<u>5,786,556</u>	<u>(82,005)</u>	<u>(1,238,706)</u>
Cash flow from capital and related financing activities:					
Purchase of capital assets				(117,688)	(117,688)
Net cash used for capital and related financing activities				<u>(117,688)</u>	<u>(117,688)</u>
Cash flow from investing activities:					
Interest on cash and investments	1,165,178	1,162,583	(3,986)		2,323,775
Net cash provided (used) by investing activities	<u>1,165,178</u>	<u>1,162,583</u>	<u>(3,986)</u>		<u>2,323,775</u>
Net increase in cash and cash equivalents	9,915,258	12,162,913			22,078,171
Cash and cash equivalents, July 1, 2007	9,625,692	10,919,517		1,000	20,546,209
Cash and cash equivalents, June 30, 2008	<u>\$ 19,540,950</u>	<u>\$ 23,082,430</u>	<u>\$ 0</u>	<u>\$ 1,000</u>	<u>\$ 42,624,380</u>

(continued)

(1) The cash flows of the Posada Del Sol Nursing Home and the ALTCS contract have been combined and are reported as the Long-Term Care Contracts program. The combination is on page 24 and 25.

PIMA COUNTY, ARIZONA
Pima Health System and Services - Enterprise Fund
Combining Statement of Cash Flows by Program
Year Ended June 30, 2008
(continued)

**Reconciliation of operating income to net cash
provided by operating activities:**

	<u>Ambulatory Contracts</u>	<u>Long-Term Care Contracts (1)</u>	<u>Grants/ Community Services System</u>	<u>Other Pima County Programs</u>	<u>Total</u>
Operating income (loss)	\$ 2,118,301	\$ 6,171,861	\$ (5,095,329)	\$ 58,752	\$ 3,253,585
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation				215,162	215,162
Decrease (increase) in assets:					
Accounts receivable	44,163	(1,548)		(71,605)	(28,990)
Reinsurance claims receivable	1,590,812	2,100,346			3,691,158
Due from Medicare		(158,529)			(158,529)
Due from other governments	2,592,853	(470,189)			2,122,664
Inventory of supplies		6,942			6,942
Prepaid expenses				(2,616)	(2,616)
Increase (decrease) in Liabilities:					
Accounts payable and accrued liabilities	87,338	23,355			110,693
Accrued medical and health care claims	4,340,270	4,955,589	(700,363)		8,595,496
Accrued employee compensation	133,489	1,278,517	12,282		1,424,288
Due to other governments	1,304,169	575,928			1,880,097
Deferred revenue			840		840
Net cash provided (used) by operating activities	<u>\$ 12,211,395</u>	<u>\$ 14,482,272</u>	<u>\$ (5,782,570)</u>	<u>\$ 199,693</u>	<u>\$ 21,110,790</u>

Noncash Investing, capital and financing activities:

During the year ended June 30, 2008, the Fund received equipment worth \$91,289. Of this amount, the Fund transferred \$19,171 from capital in process and \$72,118 was a capital contribution.

During the year ended June 30, 2008, the Fund retired equipment with a net book value of \$539.